

TFFR Trustee Update



Barbara Evanson



Lowell Latimer



Kelly Schmidt

Your retirement program is managed by a seven-member board of trustees. These trustees must perform their fiduciary responsibilities in the interest of all plan participants and beneficiaries. Members appointed by the Governor include two active teachers, one active administrator, and two retired members. Ex-officio members are the State Treasurer and State Superintendent of Schools.

- Governor Hoeven has reappointed Barbara Evanson, a Language Arts teacher from Bismarck, to her third term on the TFFR Board. Barb has represented active teachers since 1996, and is currently vice president of the Board. Her five-year term ends on June 30, 2009.
- Governor Hoeven has also appointed Lowell Latimer, a retired administrator from Minot, to fill the unexpired term of Norman Stuhlmiller who passed away in August 2004. With over 43 years of teaching and administrative service, Lowell retired in 1993 and represents retired members on the Board. His term ends on June 30, 2008.
- Another new member to the TFFR Board is Kelly Schmidt, State Treasurer. Her four-year term begins January 1, 2005. Kelly will also serve on the State Investment Board.

Other trustees are Board President Mark Sanford, active administrator from Grand Forks; Paul Lofthus, active teacher from Grand Forks; Clarence Corneil, retired member from Dickinson; and Wayne Sanstead, State Superintendent.

2005 Legislation

HB 1068 (LC 50050.0200) – Sponsored by TFFR Board

The TFFR Board has forwarded one bill to the Legislature for its consideration during the 2005 session. As noted in the last newsletter, the original bill draft updated federal tax law changes for IRS compliance purposes, and modified retiree re-employment provisions by requiring employer and employee contributions on salary earned by re-employed retirees.

Since that time, the TFFR Board has amended the bill and removed the provisions requiring employer and employee TFFR contributions when retirees return to TFFR covered employment. As amended, the bill contains the IRS qualification language and removes the July 31, 2005 expiration date to allow retirees to return to work in critical shortage areas.

The administrative changes included in this bill were reviewed by the Fund's actuarial consultant and should have no actuarial cost to the plan.

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TFFR Board of Trustees
 Mark Sanford, *President*
 Barb Evanson Paul Lofthus
 Lowell Latimer Clarence Corneil
 Kelly Schmidt Wayne Sanstead

RIO Administrative Office
 Steve Cochrane, *Executive Director/CIO*
 Fay Kopp, *Deputy Director/Retirement Officer*
 Shelly Schumacher, *Editor*

ND Retirement and Investment Office
 1930 Burnt Boat Drive, P.O. Box 7100
 Bismarck, ND 58507-7100
 701-328-9885, Toll free: 1-800-952-2970
www.discovernd.com/rio

Articles are for general information only and are not intended to provide specific advice or recommendation. Other forms of this newsletter are available on request.

Counting Your Blessings

The other night as I was watching one of my favorite holiday classics, "White Christmas," I was reminded once again to count my many blessings. Remember this song?

*"When I'm worried and I can't sleep
I count my blessings instead of sheep
And I fall asleep counting my blessings."*

*When my bankroll is getting small
I think of when I had none at all
And I fall asleep counting my blessings."*

*Words and Music by Irving Berlin
Recorded by Bing Crosby, 1954*



Fay Kopp
Deputy Executive Director

I think 2005 is the perfect time to count our blessings. For most of us, these include family, friends, health, home, and financial security. TFFR is part of your financial security blanket, and while TFFR has its share of problems, it is still something for which ND teachers can be thankful. Why?

1 TFFR is a defined benefit plan.

Your TFFR pension benefit is determined by a formula set out in state law and will provide you with a secure, stable income for life. You won't have to worry about a bear market when you want to retire, or after you retire. You can't outlive your TFFR benefits.

2 TFFR is 80% funded.

Granted, we're not 100% funded, but 80% of TFFR's "pension mortgage" is funded. Most public pension plans around the country are in a similar situation after three years of dismal investment returns, and are facing funding challenges.

3 2004 was a very good investment year.

Finally, a good year (19.3%). Not good enough to erase all the damage of the earlier three tough years, but it helps, and gives us time to continue monitoring TFFR's funding situation.

4 Your TFFR Board is focused on improving the financial soundness of TFFR.

You can be reassured that your TFFR Board is tackling the funding challenges with your best interests at heart. Monitoring investment markets, conducting actuarial studies, and carefully considering the impact of potential contribution or benefit changes, are important steps to ensure the financial stability of your retirement plan.

5 RIO staff is committed to providing excellent service.

Over the years, RIO staff has strived to deliver the best service possible to our active and retired members and employers. Your comments and evaluations tell us that our dedicated staff is keeping its promise to you.

Unfortunately, TFFR's financial position is not as strong as it was a few years ago. However, we believe our fiscal, investment, and legislative strategies will ensure the long-term viability of TFFR, and thereby the long-term financial well-being of ND teachers. It will take time and continued support from members, employers, and legislators to keep TFFR on your list of blessings.

2004 Actuarial Report Results

Each year, TFFR's actuary, Gabriel, Roeder, Smith & Company (GRS) performs an actuarial valuation. Simply put, an actuarial valuation is a mathematical means of determining if the contributions paid by members and employers, along with investment earnings, are adequate to pay the retirement benefits for current and future retirees. The annual valuation tracks changes over time and warns of possible future problems and issues. The 2004 report provides the following information:

Membership:

As of July 1, 2004, the TFFR plan represented 16,720 active, inactive, and retired members. The average age of the 9,826 active members was 44.9 years; average service was 14.7 years; and average annual salary was \$38,321. There were 5,373 retirees and beneficiaries receiving average benefits of \$15,057 per year. There were also 1,346 inactive, vested members, and 175 inactive, nonvested members.

While active membership is slowly declining, the number of retired members has grown an average of 2.1% per year over the last 10 years. Currently, there are 1.8 active members for each retiree (down from 2.2 ten years ago), and the ratio of active to retired members continues to decrease.

Actuarial Results:

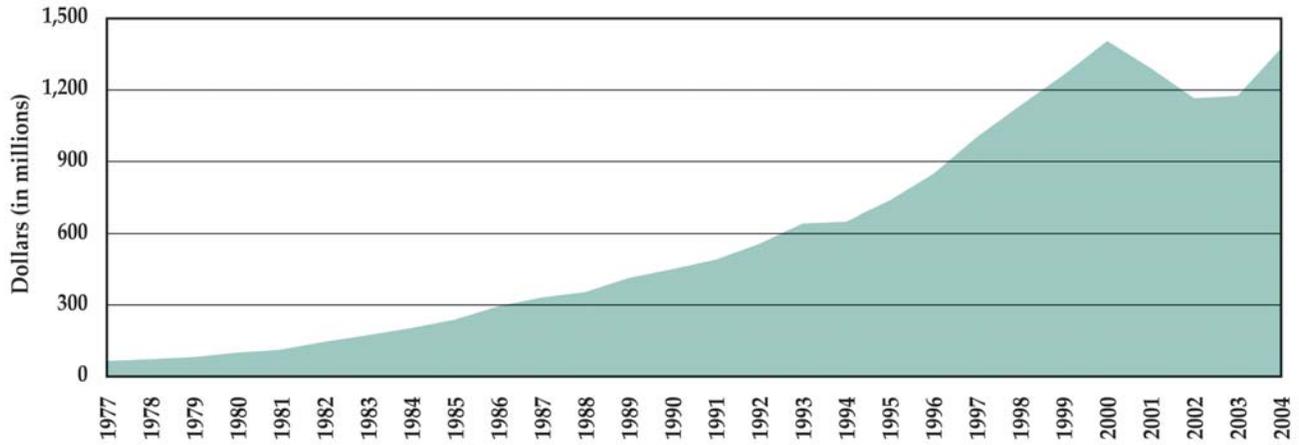
According to the 2004 actuarial report, the member and employer contribution rate of 7.75% each is no longer sufficient to fund TFFR benefits and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over the 20-year period set by the Board. The margin between the statutory rate and the rate necessary to fund the UAAL in 20

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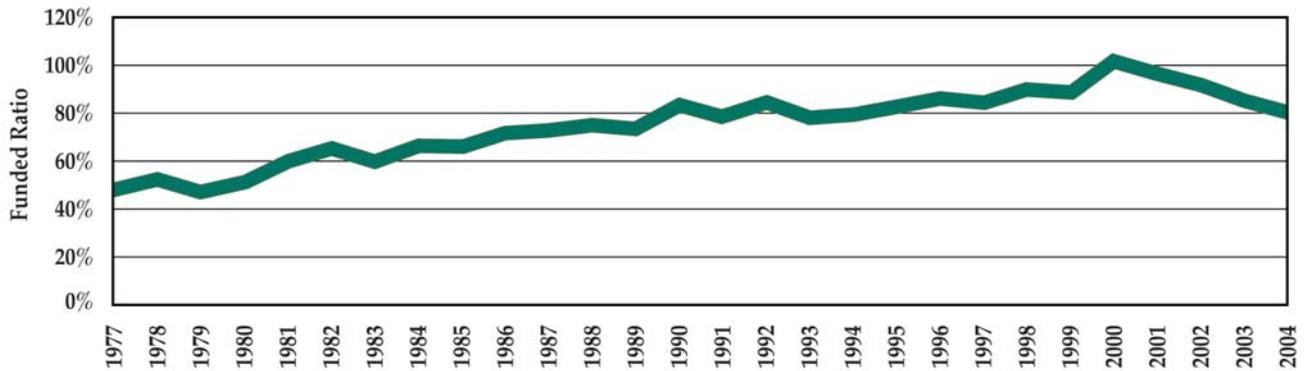
2004 Annual Report Summary

Complete Annual Financial Report available upon request, or online at www.discovernd.com/rio.

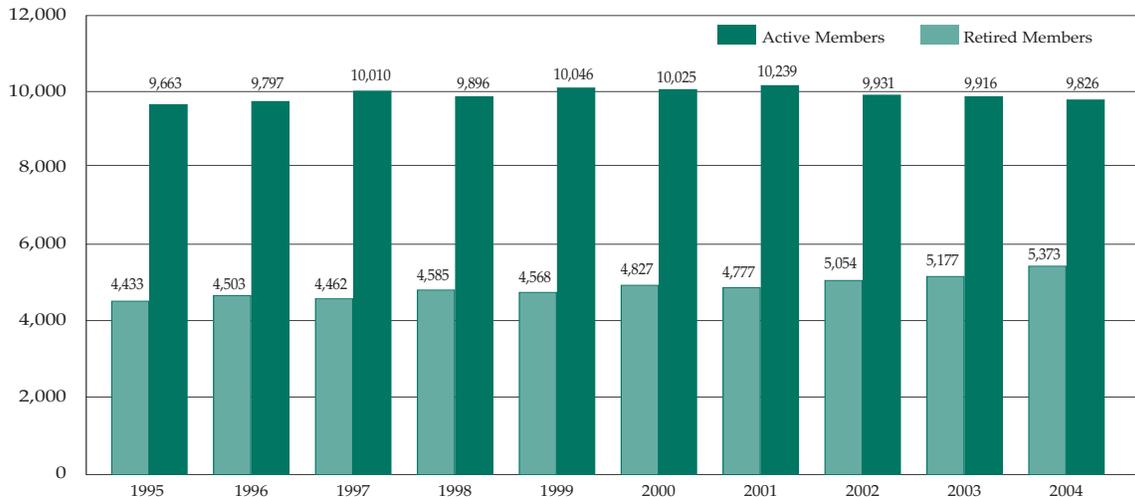
Market Value of TFFR Assets

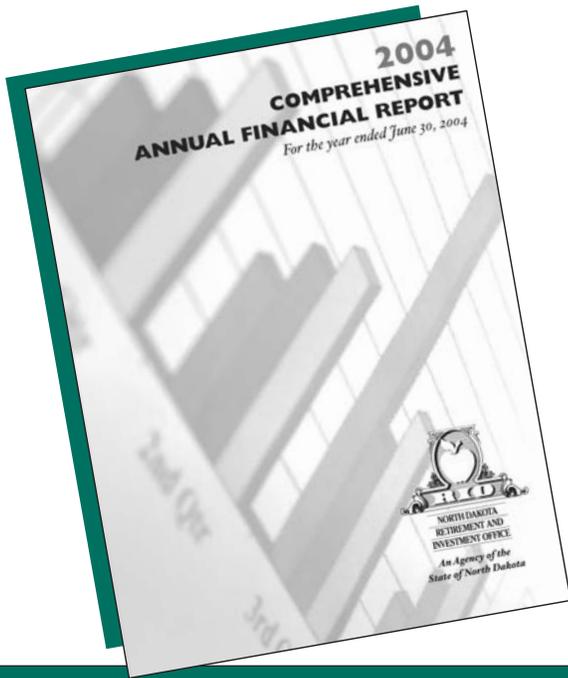


Funded Ratio

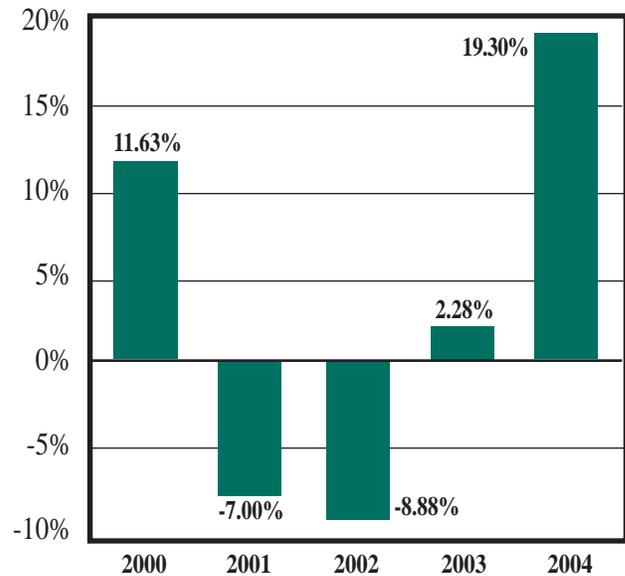


Active Members vs. Retired Members





TFFR INVESTMENT PERFORMANCE SUMMARY as of June 30



Visit our website for information from the
North Dakota Retirement and Investment Office...

www.discovernd.com/rio

View the 2004 TFFR Annual Financial Report now online.

TFFR Financial Statements

STATEMENT OF ASSETS AS OF JUNE 30, 2004

ASSETS	
Equities	\$ 900,981,977
Fixed Income	245,500,877
Real Estate	108,794,052
Private Equity	60,138,622
Invested Cash	39,971,282
Invested Securities Lending	69,506,360
Receivables	12,499,762
Other Assets	<u>8,378,563</u>
Total Assets	\$ 1,445,771,495
LIABILITIES	
Accounts Payable	\$ 1,198,117
Accrued Expenses	253,408
Securities Lending	69,506,360
Other Liabilities	<u>133,933</u>
Total Liabilities	\$ 71,091,818
Net Assets on June 30, 2004	\$ 1,374,679,677

CHANGES IN ASSETS DURING FISCAL YEAR 2004

CASH POSITION	
Net Assets on June 30, 2003	\$ 1,175,248,478
ADDITIONS	
Member Contributions	\$ 29,635,970
Employer Contributions	29,635,584
Other Additions	4,383,808
Investment Income	<u>220,242,779</u>
Total Additions	\$ 283,898,141
DEDUCTIONS	
Benefits Paid	\$ 77,153,054
Refunds	5,800,100
Administrative Expenses	<u>1,513,788</u>
Total Deductions	\$ 84,466,942
Net Increase	\$ 199,431,199
Net Assets on June 30, 2004	\$ 1,374,679,677

Partial Lump Sum Option

The Partial Lump Sum Option (PLSO) is one of the benefit payment options available to members eligible for normal retirement (age 65 or Rule of 85). For an actuarially reduced monthly benefit, you can receive a lump sum cash payment equal to twelve times the amount of the single life annuity. The lump sum is paid at the same time the monthly retirement annuity begins. If you select a joint and survivor or term certain option, the monthly benefit is reduced again to reflect the additional beneficiary coverage.

The taxable portion of the lump sum payment can be rolled over to an IRA or another eligible retirement plan. This allows a retiree to defer paying taxes on the lump sum until the funds are withdrawn from the IRA or other retirement plan.

The PLSO may be a very good choice for some retirees. This option gives you the flexibility to withdraw a portion of your benefit in cash for a large purchase or unexpected expense. The lump sum, if invested wisely, may also provide additional retirement income that could offset the cost of taking a reduced retirement benefit.

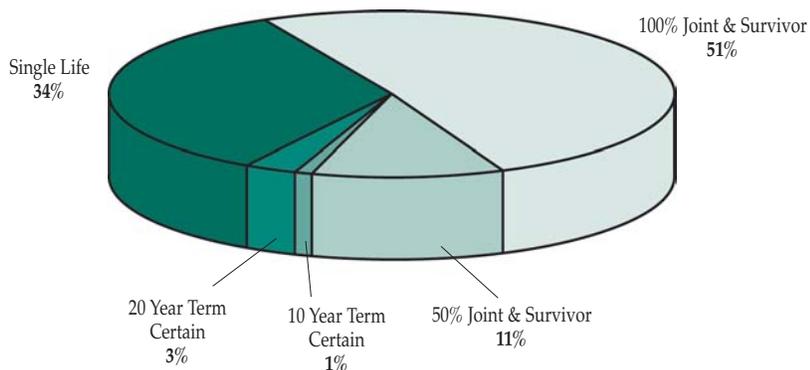
The PLSO is just one of the many options offered by TFFR. Since the lump sum payment can be a large amount, you should seek financial advice from a trusted professional before selecting this option.

Options, Options, Options

In the early years of TFFR, retirees were paid a single life benefit with no beneficiary protection. Eventually, joint and survivor and term certain plans were made available. In recent years, TFFR added the level income and partial lump sum options.

Members are often surprised, and some struggle with selecting the “right” form of retirement payment from the seven different options. However, since no two retirees have the exact same needs, this menu of options allows you to consider marital status, age, health, and financial situation of you and your beneficiary, before making your decision.

The following chart shows the retirement options selected by 346 new retirees in 2003-04:



Note: Of 346 total members, 13 percent selected the level income option and less than 1 percent selected the partial lump sum option.

Pension Software Project Update

Implementation of the new CPAS pension software is approximately 40 percent complete. The high priority tasks at this time are data conversion and configuration design and testing.

In addition to the frequent internal project team meetings, a steering committee consisting of management from NDRIO, CPAS, and the ND Information Technology Department, holds monthly meetings to review progress. This project is also monitored quarterly by the ND Legislative Information Technology Committee.

Challenging work on this important project lies ahead, but we are excited about the reliability, efficiency, and improvements the new software will bring to TFFR members, employers, and staff. Anticipated completion is the summer of 2005.

*Happy New Year
from all of us
at the
North Dakota
Retirement &
Investment Office!*

Actuarial Report Results *Continued*

years is -3.59%. This negative margin increased from -1.19% last year, mainly because of the recognition of investment experience losses from prior years. This increase would have been even larger if not for the market return in FY 2004. If the 7.75% contribution rate remains in place, and all actuarial assumptions are exactly realized, including an 8.00% investment return on the actuarial value of assets, then the UAAL will never achieve complete amortization.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio last year was 85.1%, while it is 80.3% this year. This decrease is also due to the recognized investment experience losses from prior years.

Because of the 5-year smoothing method that TFFR uses, all

investment losses (2001, 2002, and 2003) and investment gains (2004) have not yet been reflected in the actuarial measurements. As these gains and losses are recognized over the next four valuations, it is expected that the negative margin will increase and the funded ratio will continue to decrease, in the absence of changes in the benefit/contribution structure of TFFR and in the absence of other experience gains or losses.

TFFR Board:

The TFFR Board and actuarial consultant are keeping a close watch on TFFR's investment performance and funding situation. An Experience Study and Asset Liability Modeling Study will be conducted during the next year to provide additional information upon which to make future funding decisions.

2005 Legislation *Continued*

The bill was studied during the interim by the Legislative Council Employee Benefits Programs Committee and received a favorable recommendation.

HB 1067 (LC 50165.0200)

Sponsored by Rep. Bette Grande

Another bill studied during the interim by the Legislative Council Employee Benefits Programs Committee would allow teachers who teach a summer school course or program on a short-term contract basis to elect not to participate in TFFR. The Committee gave no recommendation on the bill.

You may view the bills and the status of TFFR-related legislation at www.discovernd.com/rio or www.state.nd.us/lr/. Complete bill drafts are also available at the Retirement and Investment Office.

Note: As reported to you in previous newsletters, the TFFR Board is not proposing any major benefit changes in the 2005 legislative session.

1930 BURNT BOAT DRIVE
P.O. BOX 7100
BISMARCK, ND 58507-7100
NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE
Teachers' Fund for Retirement
State Investment Board



RESORTED
STANDARD
US POSTAGE
PAID
PERMIT NO. 325
BISMARCK, ND
58501